

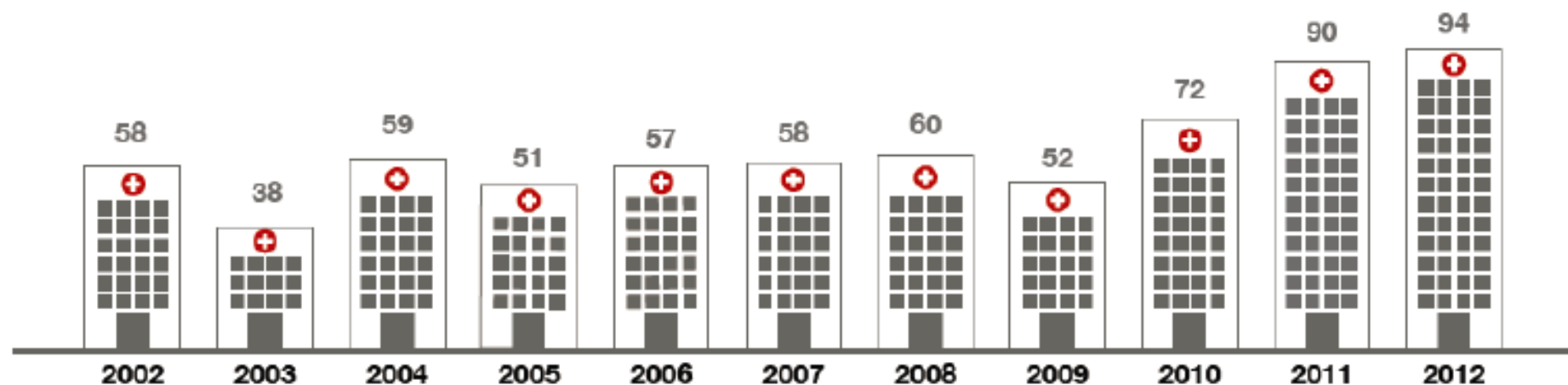
# Consolidation and Competition

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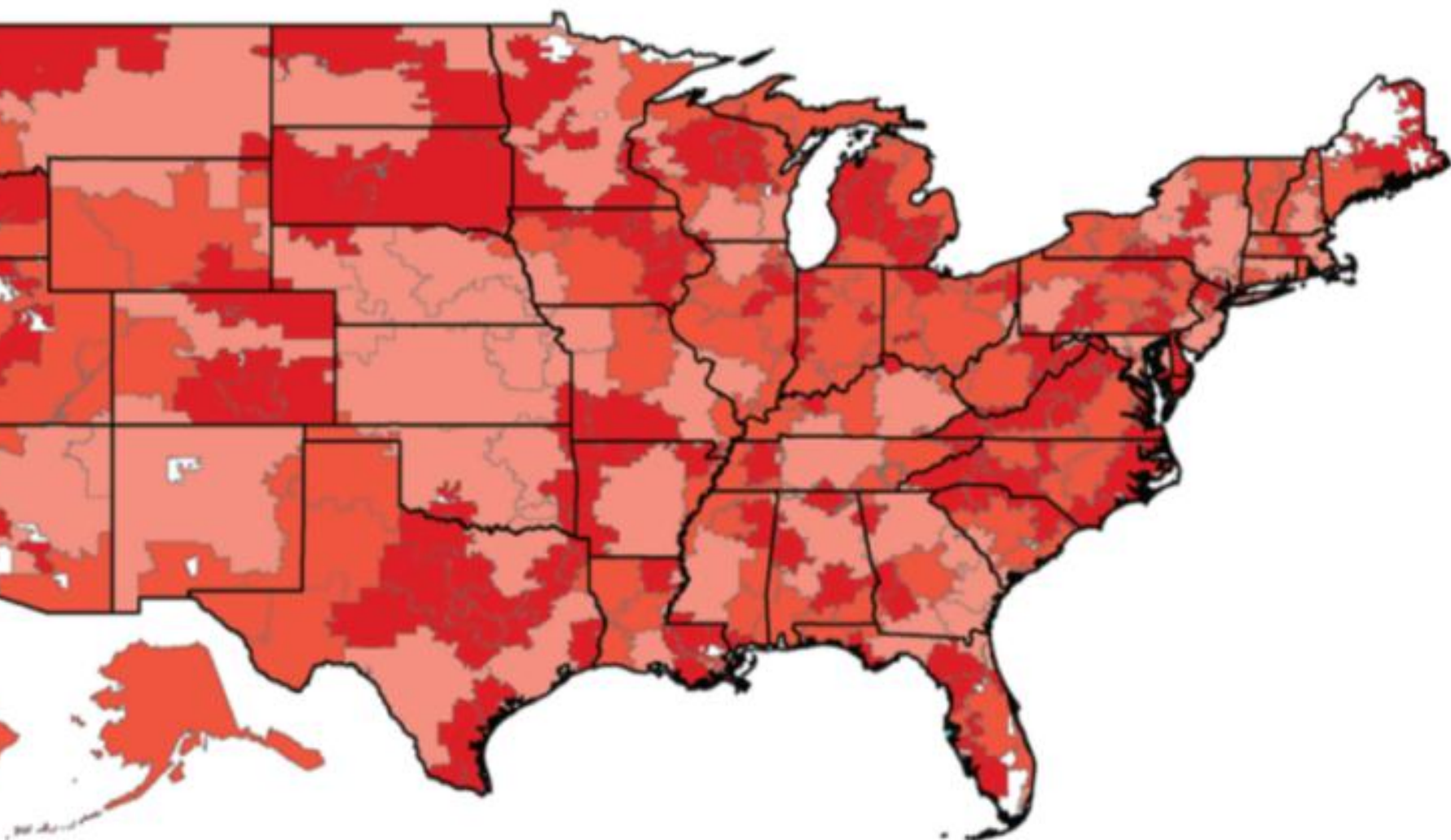
Wake Forest University

***Hospital merger and acquisition activity has increased nearly 50 % since 2009, reaching its highest point in the last 10 years.***



Source: Irving Levin Associates

al regions

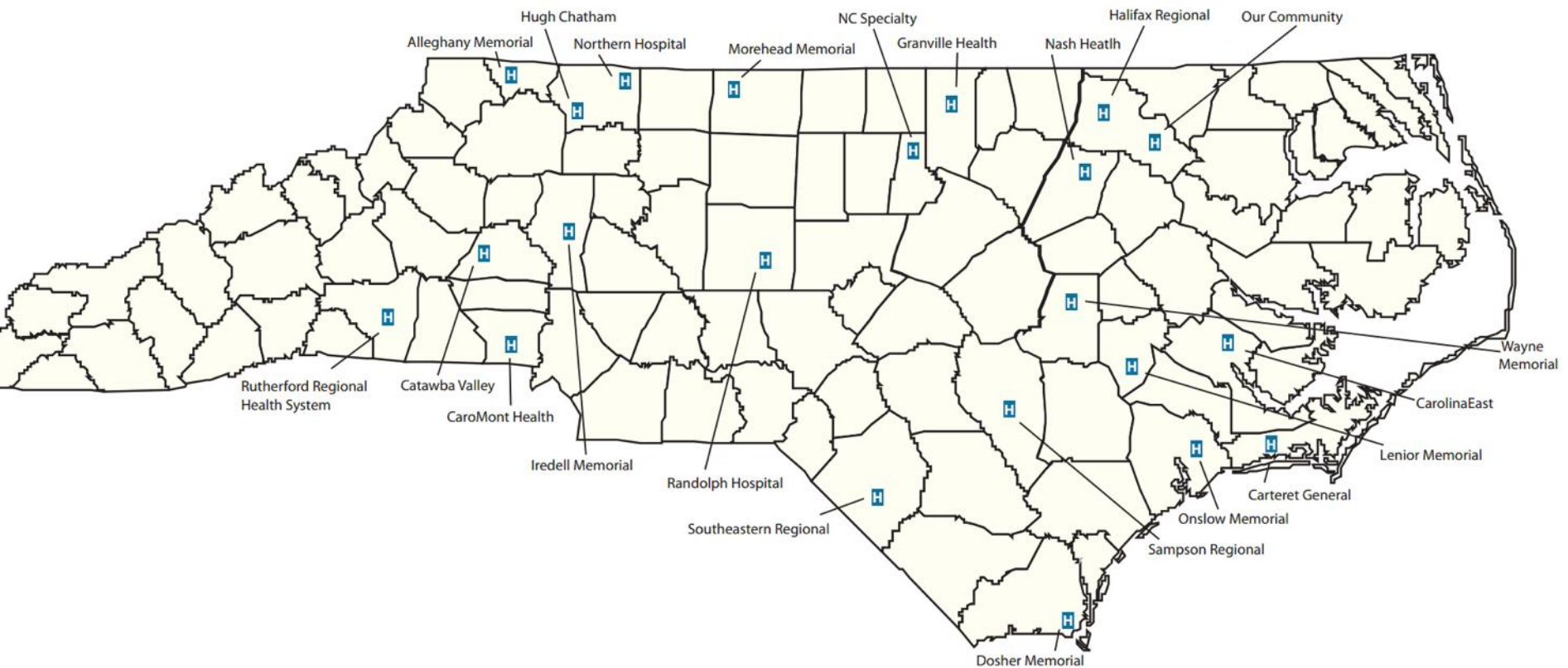


# NC Hospital Affiliation

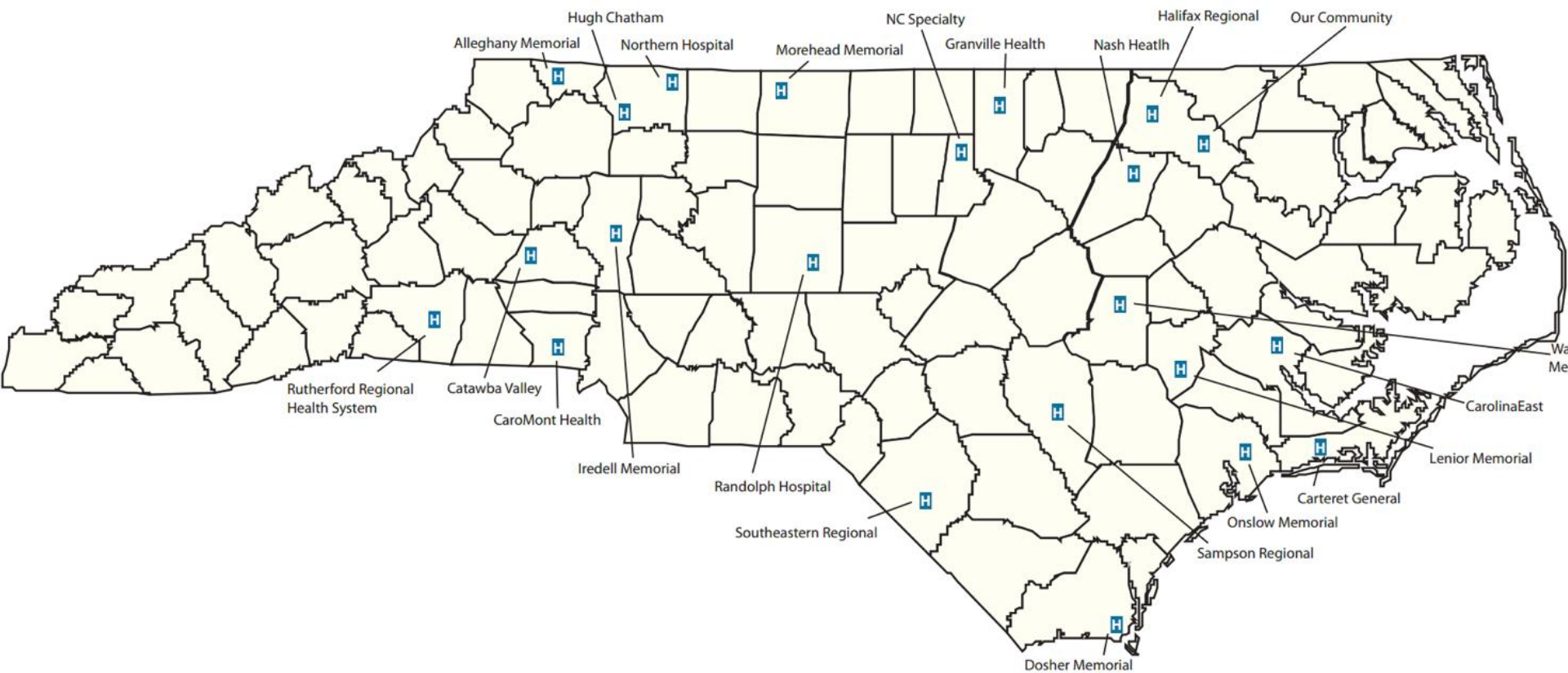
	<b>Hospitals</b>	<b>Beds</b>
TOTAL	126	23,522
Unaffiliated (~25%)	37	5,456
System (~75%)	89	18,066

<b>System</b>	<b>Hospitals</b>	<b>Beds</b>
Carolinas	20	3,925
Novant	12	2,523
Duke	5	1,710
Cone/G'boro	3	1,255
Asheville	6	1,100
Greenville	10	1,043
WFU/Winston	3	966
UNC	7	888
New Hanover	2	855
WakeMed	2	810
Cape Fear	3	724
Elkin/Eden	4	623
Pinehurst	4	567
Tenet	2	492
HMA	3	318
Appalachian	3	267

# Unaffiliated NC Hospitals



## REMAINING INDEPENDENT HOSPITALS IN NORTH CAROLINA



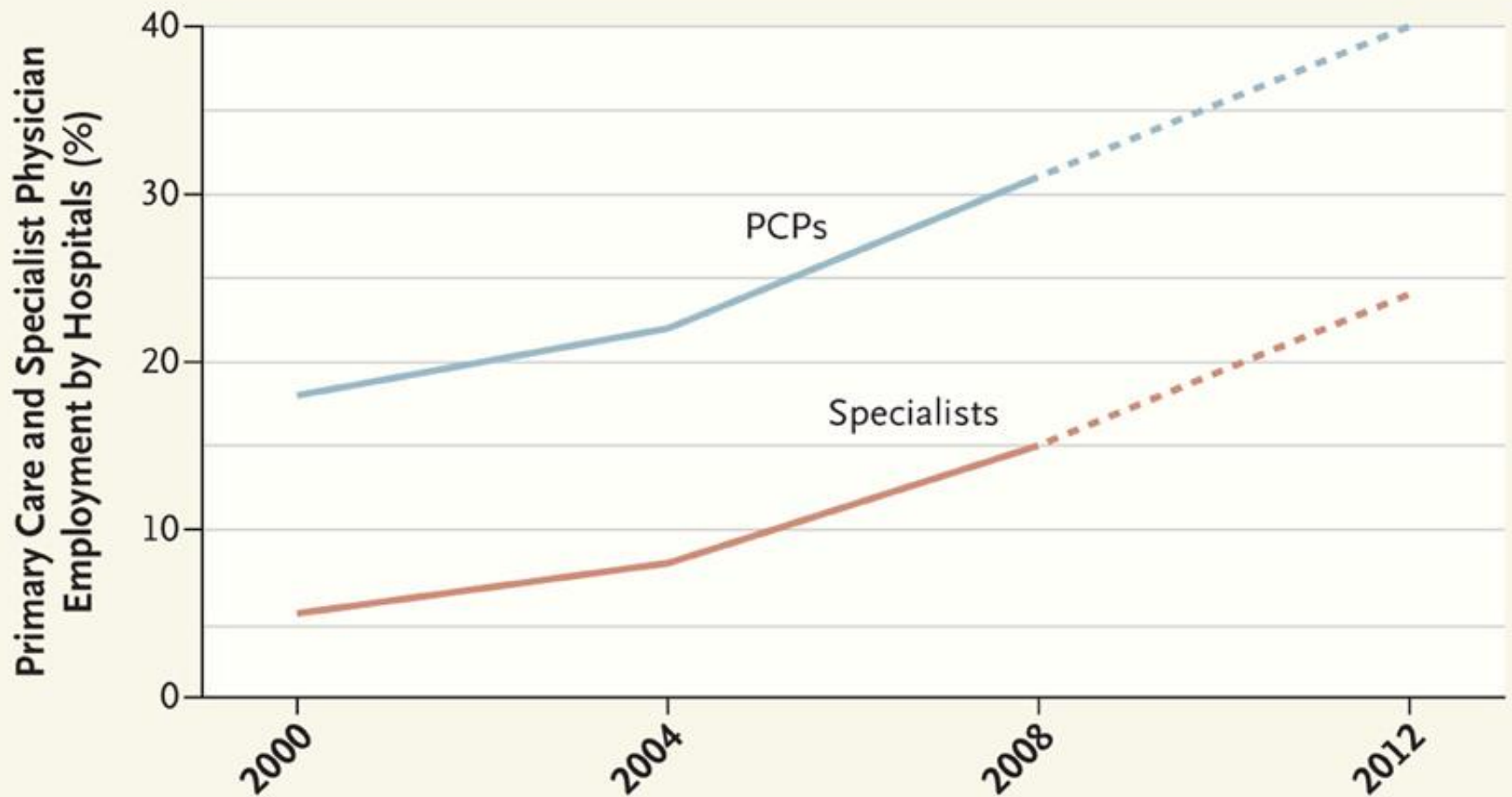
Only 22 hospitals out of more than 120 in North Carolina currently remain independent. The rest have affiliated into 19 larger systems.



## HOSPITAL M&A TRANSACTIONS IN NORTH CAROLINA

Announcement Date	Target	Acquirer	Status	Closed Date
2/4/2014	Johnston Health System	UNC Health Care	Announced	
12/5/2013	Lenoir Medical Center	TBD	Exploring	
11/13/2013	MedWest Health System (Carolinas HealthCare)	Duke LifePoint Healthcare LLC	Announced	
7/23/2013	Wilson Medical Center	Duke LifePoint Healthcare LLC	Closed	3/1/2014
7/11/2013	Stanly Health Services	Carolinas HealthCare System	Announced	
3/7/2013	Cleveland County Healthcare	Carolinas HealthCare System	Closed	3/31/2013
10/12/2012	Halifax Regional Health System	Sentara Healthcare	Closed	7/1/2013
9/27/2012	High Point Regional Health System	UNC Health Care	Closed	3/26/2013
3/20/2012	Bladen County Hospital	Cape Fear Valley Health System	Closed	3/20/2012
12/15/2011	Alamance Regional Medical	Cone Health	Closed	4/26/2013
6/30/2011	Persons Memorial Hospital	Duke LifePoint Healthcare LLC	Closed	10/3/2011
1/31/2011	Maria Parham Medical Center	Duke LifePoint Healthcare LLC	Closed	10/31/2011
1/31/2011	MedCath Partners	Duke LifePoint Healthcare LLC	Closed	5/5/2011

- 9 closed NC hospital M&A transactions in last 3 years
- 3 announced NC hospital M&A transactions pending closure
- Lenoir Medical Center has publically started a search for a partner





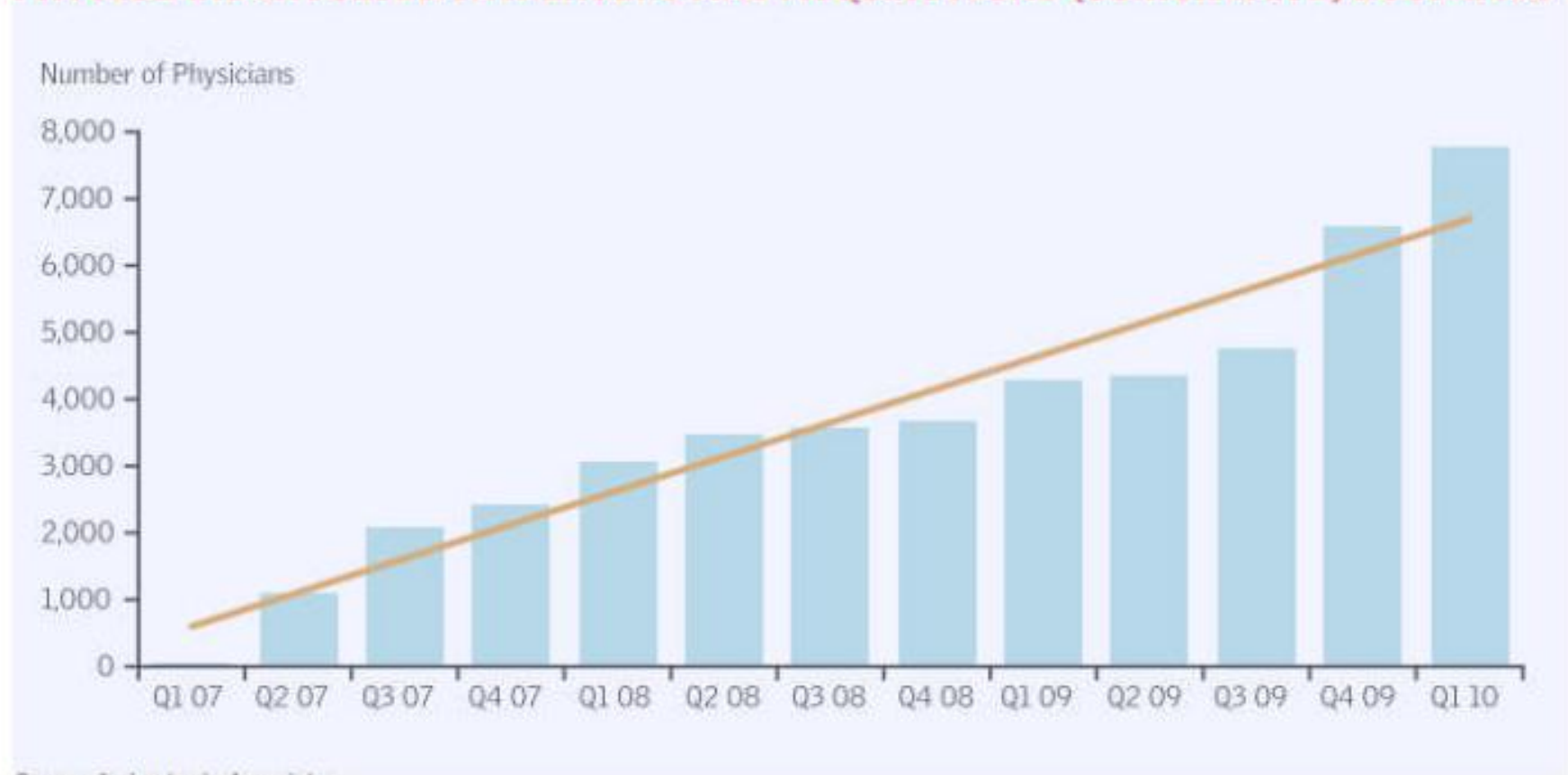
**Exhibit 6. Relationship Between Practice Ownership Structure And Practice Size (2012):  
Physicians In Single And Multi-Specialty Practice**

	Practice ownership structure					N <sup>2</sup>
	Wholly owned by physicians	Some hospital ownership <sup>1</sup>	NFP	Other		
<b>Single &amp; multi-specialty</b>	61.8%	28.1%	6.8%	3.2%	100%	2411
2-4 physicians	71.8%	21.3%	3.3%	3.6%	100%	662
5-9	67.8%	26.8%	4.0%	1.4%	100%	607
10-24	56.8%	29.3%	9.7%	4.2%	100%	489
25-49	54.8%	32.8%	7.8%	4.5%	100%	207
50+	45.6%	37.3%	13.9%	3.2%	100%	343
<b>Single specialty</b>	71.8%	21.9%	3.7%	2.6%	100%	1617
2-4 physicians	74.7%	20.1%	2.9%	2.4%	100%	593
5-9	74.3%	22.4%	2.6%	0.8%	100%	488
10-24	65.3%	24.8%	6.4%	3.5%	100%	325
25-49	70.3%	22.7%	1.6%	5.3%	100%	109
50+	75.7%	14.9%	4.6%	4.8%	100%	76
<b>Multi-specialty</b>	36.9%	43.6%	14.1%	5.4%	100%	794
2-4 physicians	43.3%	33.5%	7.2%	16.1%	100%	69
5-9	41.7%	44.6%	9.6%	4.1%	100%	119
10-24	41.0%	37.6%	15.8%	5.6%	100%	164
25-49	38.8%	43.2%	14.2%	3.7%	100%	98
50+	35.6%	44.7%	17.0%	2.7%	100%	267

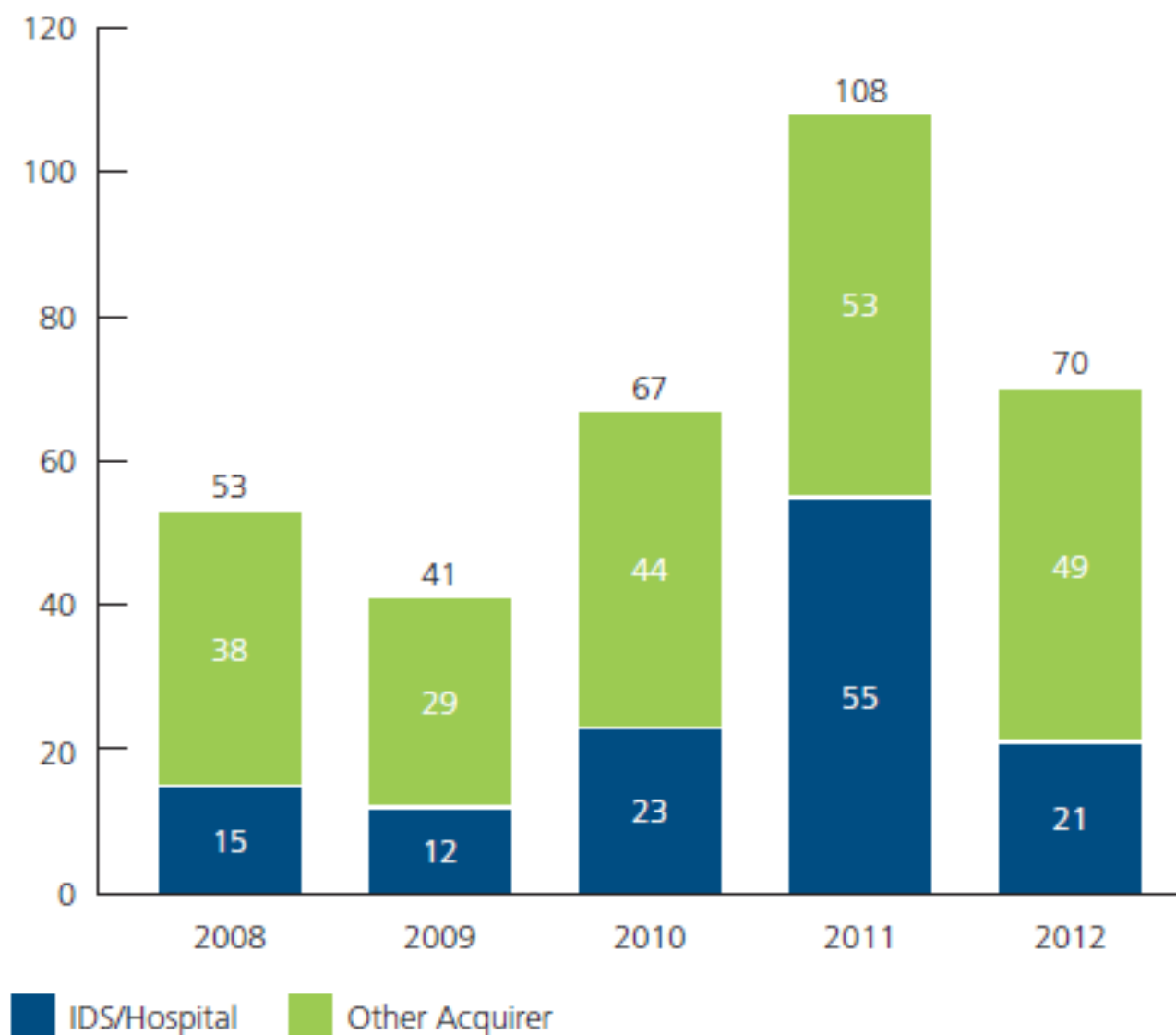
Source: AMA 2012 Physician Practice Benchmark Survey.

Notes: <sup>1</sup> For single and multi-specialty physicians combined, whether a hospital has ownership in the practice is statistically different across practice size category ( $p < 0.01$ ) using a chi-squared test. Look separately at physicians in single and multi-specialty physicians it is not statistically different at even  $p < 0.10$ . <sup>2</sup> The Ns for the practice size categories do not add to the total Ns. The single, multi-specialty, and combined totals include physicians who did not know the number of physicians in their practice or who said there was only one physician in their practice.

# PHYSICIANS INVOLVED IN MERGERS AND ACQUISITIONS (CUMULATIVE) 2007-2010



**Figure 1: Medical group acquisitions by acquirer**

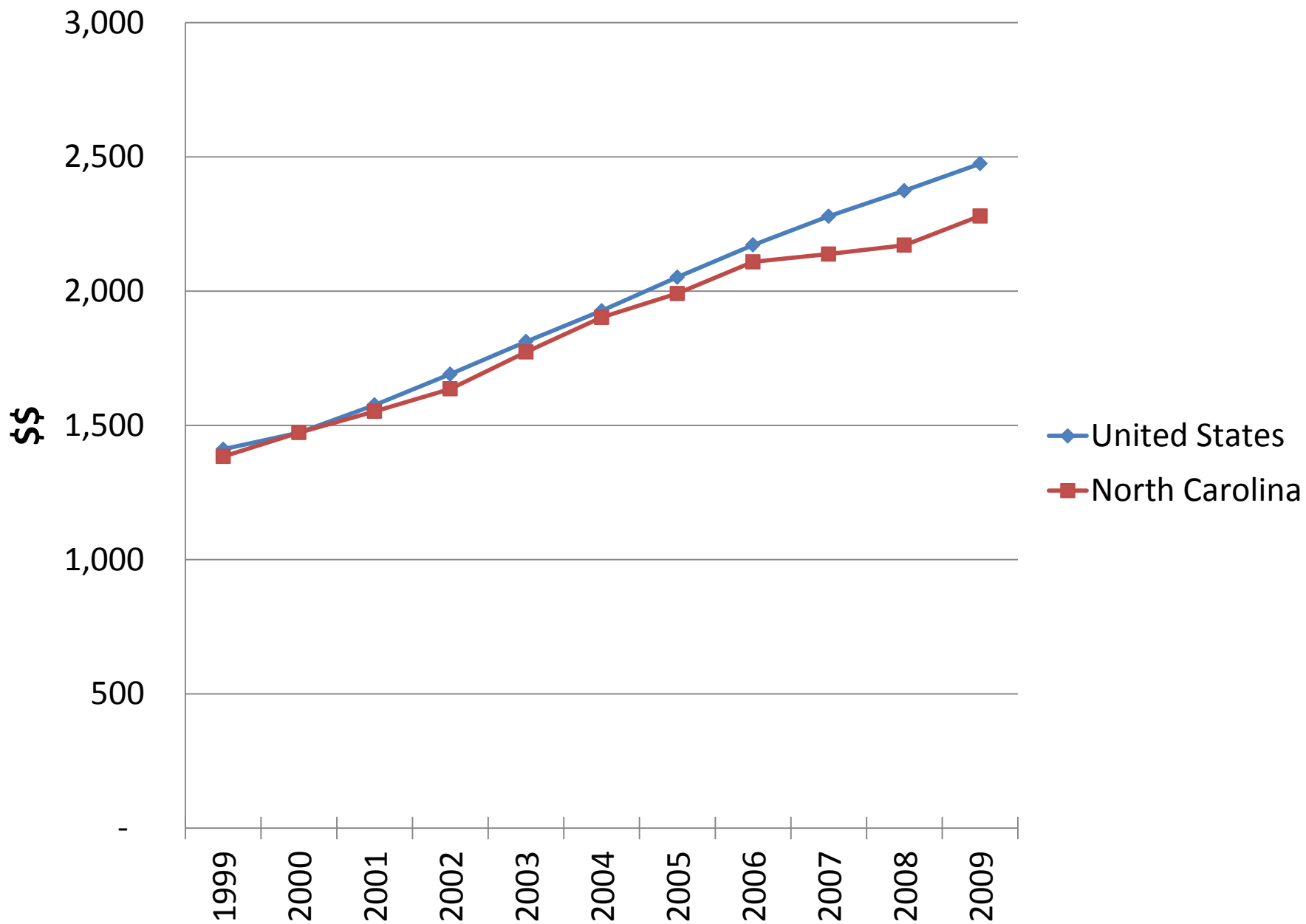


Number of transactions

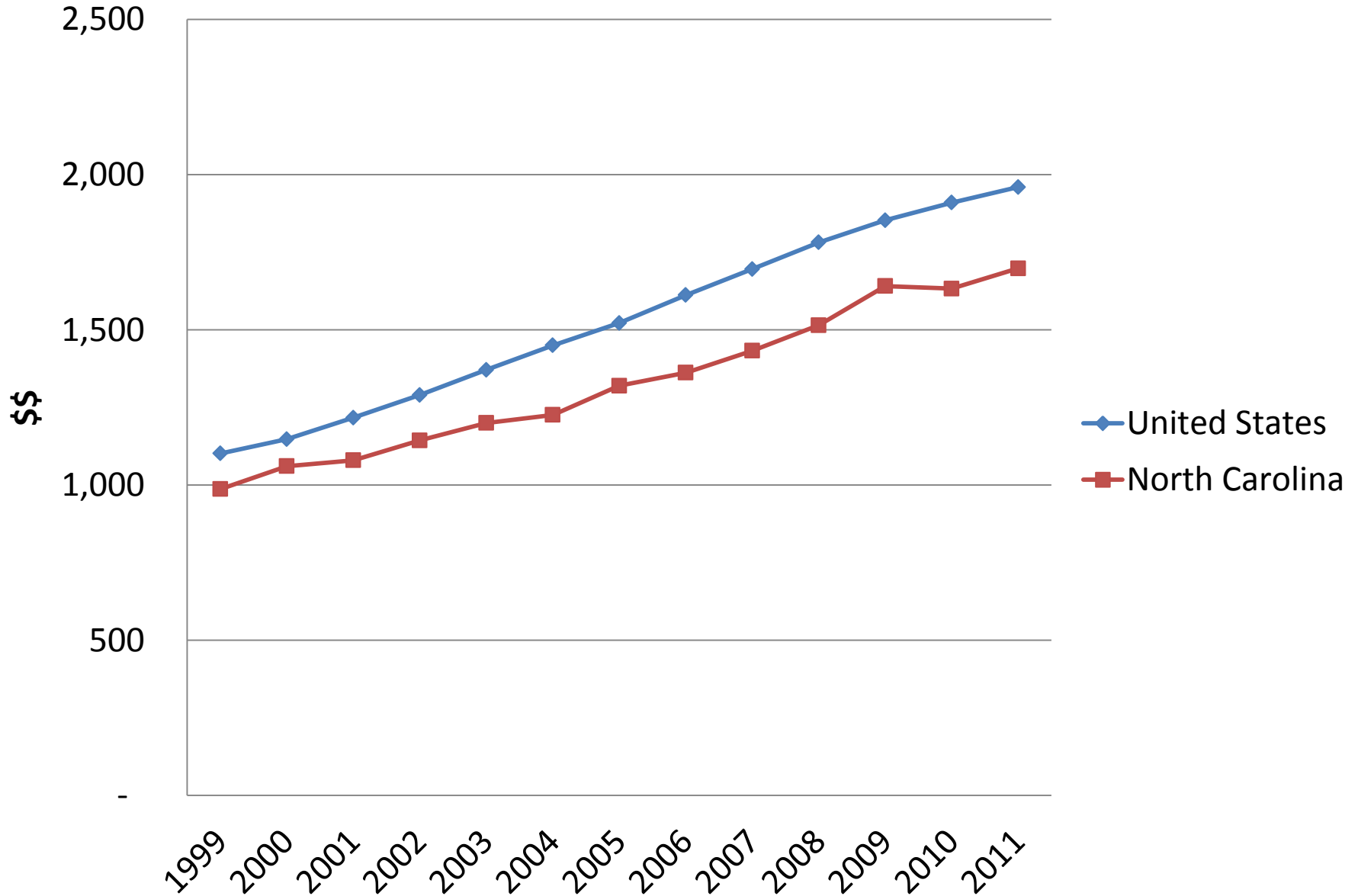
**Table 2. Benefits and Harms of Consolidation**

Claim	Example	Literature to Date
Benefits		
Quality improvements		
Large size of any 1 service (eg, hospital) improves quality of care.	Surgeon specializing in hand surgery has better outcomes.	Robust
Larger size allows for more costly investments.	Spreading financial burden allows for investment in electronic medical records.	Robust
Cost savings: Coordination of care is improved when hospitals join with complementary providers (eg, physician organizations, rehabilitation centers, nursing homes, etc).	For a complex procedure, 1 case manager can work with patient through pre-surgery, surgery, and post-surgery, managing continued coordination across various clinicians.	Minimal
Harms		
Higher prices: Clinicians gain market power through consolidation and raise prices to payers.	Because consolidation reduces the number of hospital systems from 5 to 3, payers cannot afford to exclude 1 system from a product, and thus hospitals can demand higher prices.	Robust
Less innovation: Innovation	No investment in uniform	Minimal

## Hospital Cost per Capita, 1999-2009

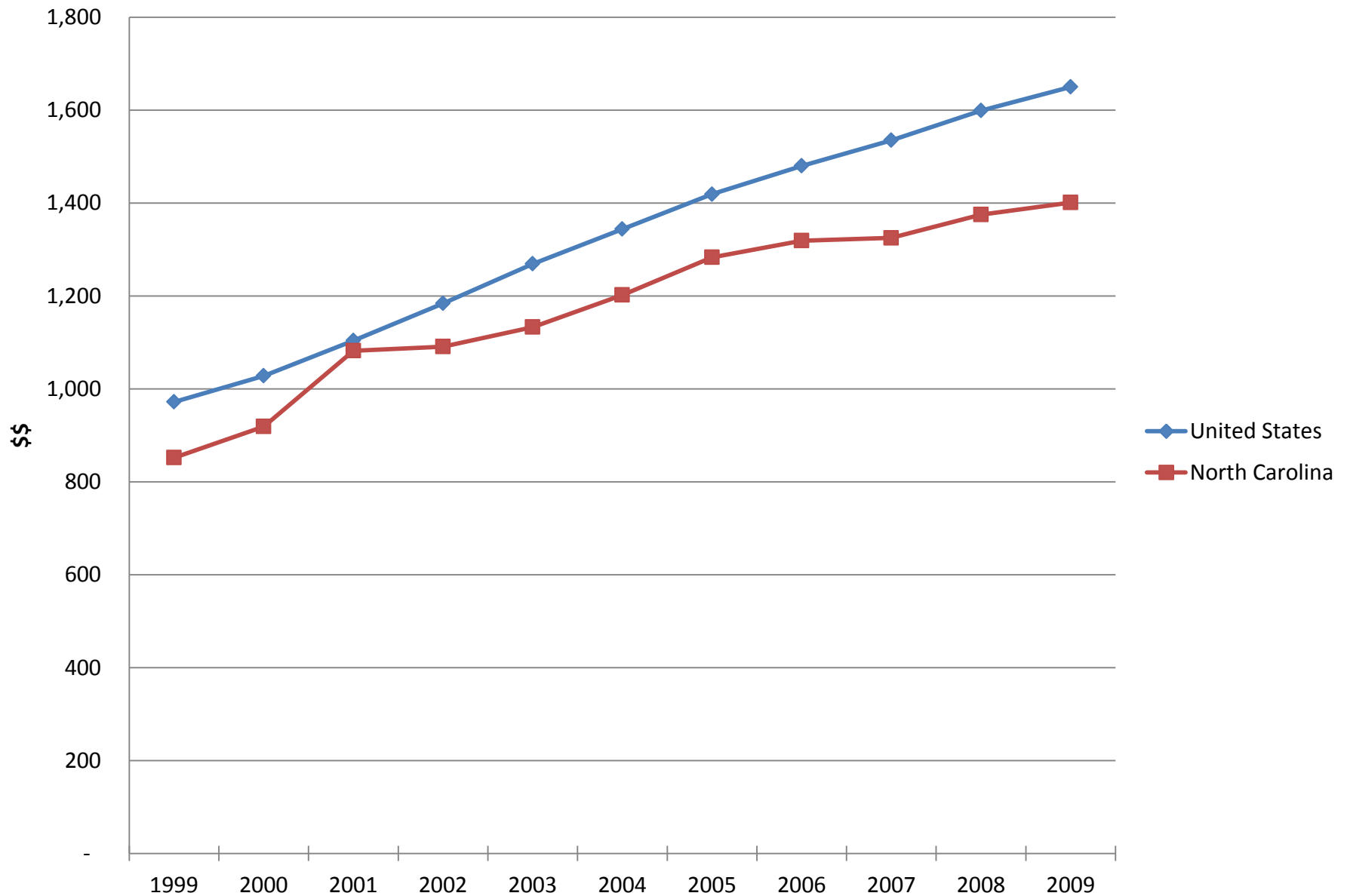


# Hospital Expenses per Inpatient Day, 1999-2011



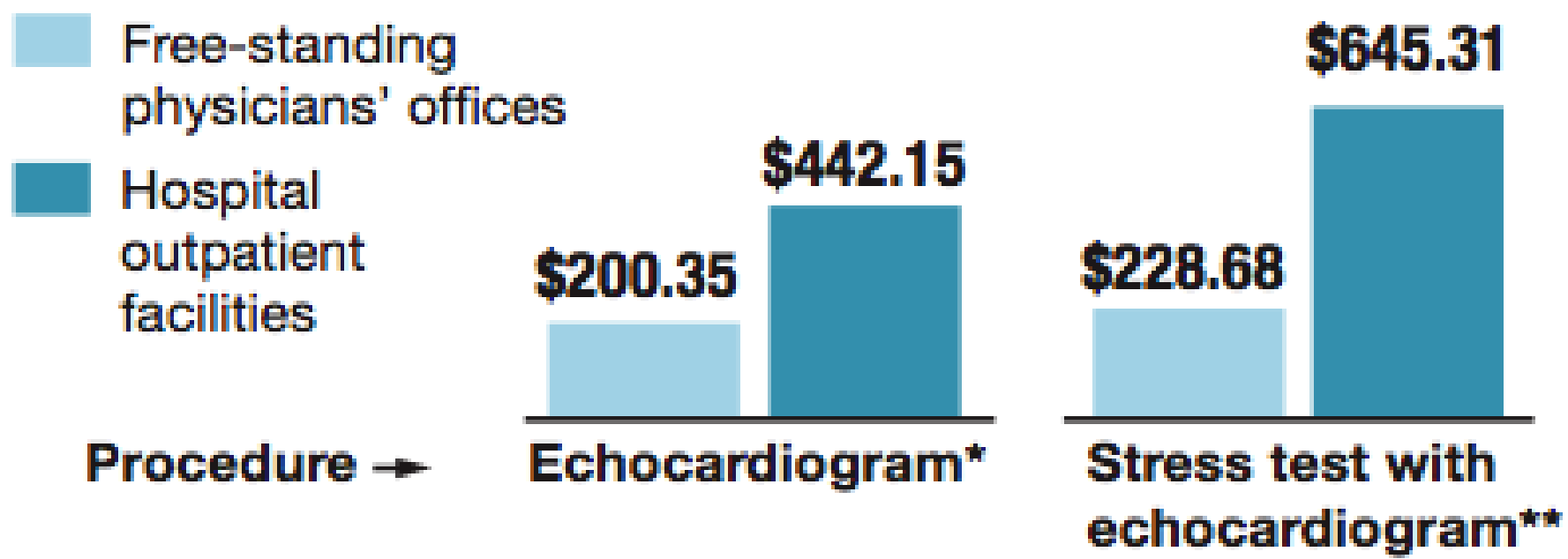


# Physician and Clinical Services per Capita, 1999-2009



# Same test, different price

Some routine cardiac tests, including echocardiograms, cost more than twice as much in hospital-owned clinics as in independent cardiology offices. The following figures show the current Medicare payments to free-standing physicians' offices and hospital-owned outpatient facilities in the Raleigh area.



Notes: Echocardiograms are tests that use ultrasound to create a moving picture of the heart. The figures above include both the professional fee to the doctor and the technical fee for the test itself.  
\*Reflects figures for CPT code 93306, the most common type of echocardiogram  
\*\*Reflects figures for CPT code 93351, an echocardiogram performed during a stress test to determine the effects of stress on the heart

# Conclusions, Observations

Yes, there is cause for concern. Options:

- Study, monitor
- Regulate prices
- Actively encourage price negotiations
  - Regulatory review
  - No bundling of services, providers
  - Allow narrow networks
  - Allow tiered networks
  - “Medical tourism”